

Message Text

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R 020950Z JUL 75

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 869

INFO AMCONSUL KARACHI

AMCONSUL LAHORE

AMEMBASSY NEW DELHI

AMEMBASSY TEHRAN

AMEMBASSY KABUL

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E.O. 11652: N/A

TAGS: ECON, PK

SUBJECT: GOP ASSESSMENT OF PAKISTAN ECONOMY

REF: ISLAMABAD 5256

SUMMARY: THE PAKISTAN ECONOMIC SURVEY, RELEASED ALONG WITH THE BUDGET, PAINTS A GLOOMY PICTURE OF THE YEAR 1974/75, BUT FORECASTS A GOOD YEAR IN 1975/76, WITH BIG INCREASES IN AGRICULTURAL AND INDUSTRIAL PRODUCTION AND A 9 PERCENT GROWTH IN GNP. THE SURVEY'S DIAGNOSIS OF THE PAST YEAR'S PERFORMWNCE ACCORDS FAIRLY WELL WITH OUR OWN, ALTHOUGH WE BELIEVE THAT IT SLIDES OVER SOME IMPORTANT INSTITUTIONAL OBSTACLES TO BETTER PERFORMANCE IN AGRICULTURE AND INDUSTRY. ITS PROJECTIONS FOR THE COMING YEAR, CONSEQUENTLY, ARE UNREALISTIC. WE EXPECT SOME INCREASE IN AGRICULTURAL PRODUCTION, SOMEWHAT BETTER INDUSTRIAL PERFORMANCE, CONTINUING DIFFICULTIES WITH INFLATION AND LIMITED OFFICIAL USE

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ANOTHER SUBSTANTIAL TRADE DEFICIT - IN SHORT, ANOTHER YEAR

OF UNINSPIRING ECONOMIC PERFORMANCE BUT NO REAL ECONOMIC
DISASTERS AND WITH ANY LUCH SOME IDENTIFIABLE PROGRESS.
END SUMMARY.

1. THE PAKISTAN GOVERNMENT RELEASED ITS ANNUAL ECONOMIC
SURVEY JUST BEFORE THE BUDGET PRESENTATION, AS IT TRADITIONALLY
DOES. THIS YEAR'S REPORT OF 200 PAGES PLUS APPENDICES
WAS A MORE HONEST DOCUMENT THAN SOME RECENT ONES HAVE BEEN,
DESCRIBING AN ECONOMY WHICH HAS COME THROUGH A VERY DIFFICULT
YEAR AND HAS MANY SERIOUS OBSTACLES TO OVERCOME BEFORE IT
CAN PROGRESS AT A SATISFACTORY RATE.

2. GNP. PERHAPS THE SINGLE MOST INTERESTING ITEM IN THE
REPORT WAS THE ADMISSION THAT REAL GNP PER CAPITA DECLINED
IN FY 1974/75. AGAINST A POPULATION GROWTH RATE ESTIMATED
AT THREE PERCENT, REAL GNP GREW ONLY 2.6 PERCENT. IF THIS
PROVISIONAL ESTIMATE HOLDS UP, IT MEANS PAKISTAN HAS
EXPERIENCED VIRTUALLY NO INCREASE IN REAL GNP PER CAPITA
SINCE 1969/70, A MOST DISCOURAGING DEVELOPMENT. FOR THIS
NEXT YEAR, THE GOP HAS FORECAST A REAL GNP INCREASE OF NINE
PERCENT, WHICH IS PROBABLY TOO OPTIMISTIC. OVER THE LAST
TEN YEARS, AVERAGE GNP GROWTH HAS BEEN ONLY ABOUT FIVE
PERCENT.

3. THE SURVEY POSTULATES AS THE MAJOR POSITIVE ECONOMIC
ACHIEVEMENT OF THE YEAR THE INCREASE IN THE LEVEL OF
GROSS INVESTMENT. TOTAL INVESTMENT INCREASED SIGNIFICANTLY
BOTH IN MONETARY AND REAL TERMS. ACCORDING TO THE REPORT,
THE RATIO OF INVESTMENT TO GNP IS NOW REGAINING THE LEVEL
NECESSARY TO ATTAIN SUSTAINED GROWTH RATES OF SIX PERCENT
AND ABOVE - THE LEVEL REQUIRED TO SHOW REASONABLE IMPROVE-
MENT IN THE STANDARD OF LIVING WITH ABOUT A THREE PERCENT
ANNUAL INCREASE IN POPULATION. MOST OF THE INCREASE IN
INVESTMENT WAS IN THE PUBLIC SECTOR INDUSTRIES, ALTHOUGH
SMALL AND MEDIUM-SCALE PRIVATE INDUSTGY AND CONSTRUCTION
INVESTMENT ALSO ROSE. FURTHER INCREASES ARE EXPECTED
NEXT YEAR, ESPECIALLY IN THE PUBLIC SECTOR. THE BUDGET
SPEECH SUGGESTED THAT THE GOVERNMENT RECOGNIZES THE URGENCY
OF PRIVATE INVESTMENT AS A MEANS OF INCREASING PRODUCTION
GENERALLY, BUT THE PRIVATE SECTOR CONTINUES CHARY OF RISKING
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ITS MONEY IN LARGE-SCALE VENTURES.

4. AGRICULTURE: AGRICULTURE IS OVERWHELMINGLY THE SINGLE
MOST IMPORTANT SECTOR IN THE PAKISTAN ECONOMY, CONTRIBUTING
ABOUT ONE-THIRD OF GNP AND SUPPORTING SOME 70 PERCENT OF
THE PEOPLE. A BAD YEAR FOR AGRICULTURE, THEN, IS BOUND
TO BE A BAD YEAR ALL AROUND. IN 1974/75, PRODUCTION FELL
IN ALL THE MAJOR CROPS AND IN AGRICULTURE AS A WHOLE.

THE ECONOMIC SURVEY PUTS MOST OF THE BLAME ON LAST SUMMER'S DROUGHT AND ON THE TWRBELA MISHAP, AND HAS SET AMBITIOUS TARGETS FOR NEXT YEWR WHICH THE GOP FEELS NORMAL RAINS AND TARBELA WATER WILL BRING WITHIN REACH. IN OUR VIEW, WATER SUPPLY PROBLEMS CANNOT FULLY ACCOUNT FOR THIS YEAR'S POOR PERFORMANCE. CONTINUING PROBLEMS WITH FERTILIZER DISTRIBUTION AND THE INSULATION OF MANY FARMERS FROM PRICE INVENTIVES - WHETHER BECAUSE OF MARKETING RESTRICTIONS, DOMESTIC PRICING POLICIES, FORCED PROCUREMENT, OR FORCED SALES AT HARVEST TIME BECAUSE OF INADEQUATE CREDIT - PLAYED AN IMPORTANT PART AS WELL. THESE DIFFICULTIES WILL REMAIN EVEN IF THE WATER SUPPLY PROBLEMS ARE RESOLVED.

5. ACHIEVING NEXT YEAR'S ANNOUNCED RECORD HIGH TARGET OF 8.4 MILLION TONS OF WHEAT AND SUBSTANTIAL INCREASES IN THE OTHER MAKOR CROPS WILL NOT BE IMPOSSIBLE, BUT WILL PROBABLY REQUIRE A COMBINATION OF MORE INCENTIVES AND GOVERNMENT INPUTS THAN HAVE OCCURRED IN THE PAST.

6. INDUSTRY: INDUSTRY, TOO, PERFORMED DISAPPOINTINGLY IN 1974/75. THERE IS SOME AMBIQUITY ABOUT WHAT HAPPENED TO OVERALL PRODUCTION IN LARGE-SCALE MANUFACTURING. THE TEXT ECONOMIC SURVEY CITES NOMINAL GROWTH (THREE PERCENT), BUT THE REVISED INDEX OF LARGE-SCALE INDUSTRIAL PRODUCTION, WHICH WE BELIEVE IS MORE ACCURATE, SHOWS A SLIGHT DROP. IN ANY EVENT, THE MOST IMPORTANT LARGE-SCALE INDUSTRY, TEXTILES, SHOWED A SUBSTANTIAL DROP IN PRODUCTION, AND THIS WAS TRUE OF A NUMBER OF OTHER INDUSTRIES AS WELL. SOME IMPROVEMENT CAN BE EXPECTED IN THE COMING YEAR. THE DROP IN TEXTILE PRODUCTION WAS DUE IN LARGE PART TO THE SLUMP IN THE INTERNATIONAL TEXTILE MARKET, AND THE EXPECTED REVIVAL OF INTERNATIONAL DEMAND SHOULD HELP.

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AID-05 EB-07 CIEP-01 TRSE-00 STR-04 OMB-01 CEA-01

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7. TRADE AND PAYMENTS. ACCORDING TO THE SURVEY, PAKISTAN'S TERMS OF TRADE TOUCHED ITS NADIR DURING THE PAST YEAR. THE DECLINE OF 20 PERCENT BROUGHT THE CUMULATIVE WORSENING OF THE TERMS OF TRADE SINCE 1970/71 TO 25 PERCENT. THE RESULTING LOSS OF RESOURCES AMOUNTED TO ROUGHLY EIGHT PERCENT OF GNP. THE INTERNATIONAL RECESSION DEEPLY AFFECTED BOTH THE VOLUME OF EXPORTS AND UNIT PRICE, PARTICULARLY IN THE CASE OF TEXTILES. EXPORTS OF COTTON YARN FELL ROUGHLY BY \$100 MILLION WHILE EXPORTS OF CLOTHES ARE NOT LIKELY TO REACH THE LEVEL OF LAST YEAR. ON THE OTHER HAND, THE OIL BILL FOR 1974/75 INCREASED ALMOST SIX FOLD AS COMPARED TO TWO YEARS AGO. PRICES OF WHEAT, EDIBLE OIL, FERTILIZERS, CHEMICALS, METALS AND MACHINERY ALSO INCREASED SUBSTANTIALLY, LEADING TO AN INCREASE OF 67 PERCENT IN THE VALUE OF IMPORTS. THUS, THE TRADE DEFICIT REACHED RECORD PROPORTIONS ESTIMATED AT \$1.1 BILLION. FORTUNATELY, A RECORD LEVEL OF FOREIGN ASSISTANCE LARGELY COVERED THIS GAP AND THE PROSPECTS ARE FOR ONLY A SMALL BALANCE OF LIMITED OFFICIAL USE

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PAYMENTS DEFICIT FOR THE YEAR AS A WHOLE.

8. FOREIGN AID: PAKISTAN RECEIVED A HUGE INCREASE IN FOREIGN ASSISTANCE DURING THE YEAR. THE TOTAL AMOUNT PLEDGED, INCLUDING, BOTH "NORMAL" AID AND EARTHQUAKE RELIEF, CAME TO \$1.8 BILLION, A RECORD AMOUNT. OF THIS, THE ISLAMIC OPEC COUNTRIES PROVIDED \$936 MILLION, THE CONSORTIUM COUNTRIES \$493 MILLION, AND OTHER NON-CONSORTIUM COUNTRIES SOME \$354 MILLION. DISBURSEMENTS DURING THE YEAR ARE ESTIMATED TO BE OVER \$1.0 BILLION, ABOUT HALF FROM OPEC COUNTRIES.

9. THE SURVEY COMMENTED THAT THE PROPORTION OF AID IN THE FORM OF GRANTS AND GRANT-TYPE ASSISTANCE CONTINUED TO DECLINE AND AMOUNTED ONLY TO 2.4 PERCENT OF TOTAL ASSISTANCE. HOWEVER, THE PROPORTION OF BORROWING ON CONCESSIONAL TERMS IMPROVED OVER THE PREVIOUS YEAR TO ABOUT A LEVEL OF 50

PERCENT. ACCORDING TO THE SURVEY, THE DEBT SERVICE RATIO WORSENE FROM 19 PERCENT THE PREVIOUS YEAR TO 23 PERCENT THIS YEAR, A FIGURE MUCH HIGHER THAN EARLIER EXPORT PROJECTIONS INDICATED.

10. INFLATION. ALONG WITH THE TERMS OF TRADE, THE SURVEY CITES INFLATION AS PAKISTAN'S MOST SERIOUS GENERAL ECONOMIC PROBLEM. UNFORTUNATELY, WE SEE LITTLE LIKELIHOOD OF MUCH IMPROVEMENT IN THIS AREA, AND EXPECT THE CURRENT 20 PERCENT RATE TO CONTINUE INTO THE NEXT YEAR. THE GOVERNMENT HAS BEEN RESTRICTING MONETARY EXPANSION, BUT IF A REAL INCREASE IN EITHER AGRICULTURAL OR INDUSTRIAL PRODUCTION IS TO OCCUR THIS WILL ALSO REQUIRE A SIGNIFICANT INCREASE IN LIQUIDITY. THE CONSUMER PRICE CONTROLS ENACTED LAST APRIL ARE WORKING IN SOME AREAS BUT IN ANY CASE COVER ONLY CERTAIN COMMODITIES.

11. MAKING THE MACHINE WORK: IN LOOKING AT THE PERFORMANCE OF THE ECONOMY AS A WHOLE, THERE IS ONE FURTHER PROBLEM WHICH IS HARD TO LABEL AND NOT DISCUSSED IN THE SURVEY. IT SEEMS TO BE VERY DIFFICULT TO GET THE DIFFERENT PARTS OF THE ECOOMY TO PULL TOGETHER. INSUFFICIENT AND POORLY RUN MEANS OF TRANSPORTATION, H HOST OF GOVERNMENT REGULATIONS INHIBITING THE MARKETING OF GOODS -- THESE LIMITED OFFICIAL USE

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ARE FREQUETN, INDEED CHRONIC COMPLAINTS OF PEOPLE PRODUCING THE GOODS ON WHICH THE PAKISTAN ECONOMY DEPENDS. IN LARGE MEASURE, THIS PROBLEM RESULTSHJFROM EXCESSIVE CENTRALIZATION BOTH IN GOVERNMENT AND IN INDIVIDUAL ORGANIZATIONS.

12. SUMMING UP: BARRING UNFORESEEN CALAMITIES OF NATURE, PAKISTAN IS UNLIKELY TO SUFFER ANY REAL ECONOMIC DISASTERS IN THE COMING YEAR. IF FOOD AID LEVELS CONTINUE TO BE SUBSTANTIAL, PEOPLE WILL CONTINUE TO GET MORE OR LESS ENOUGHT TO EAT, AND ECONOMIC ACTIVITY WILL CONTINUE AT MORE OR LESS THE SAME LEVEL. THE DEVELOPMENT EFFORT WILL CARRY ON, PERHAPS WITH LESS DRAMATIC SUCCESS THAN THE GOP AND WE MIGHT HOPE FOR, BUT WITH AT LEAST ENOUGH SUCCESSES TO MAKE SOME IDENTIFIABLE PROGRESS. THE SURVEY'S FORECAST OF NINE PERCENT REAL GROTH IN GNP NEXT YEAR, LIKE SOME OF ITS OTHER PROJECTIONS, SEEMS TOO OPTIMISTIC TO US, BUT SOME IMPROVEMENT IN THIS YEAR'S 2.6 PERCENT WOULD NOT BE AN UNREASONABLE EXPECTATION. LUPPI

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